2004 ANNUAL Report

HIGHVIEW
RESOURCES LTD.

Corporate PROFILE

Highview Resources Ltd.("Highview") is a publicly traded junior energy company engaged in the exploration and development of crude oil and natural gas in Western Canada. Highview trades on the TSX Venture Exchange, symbol **HVW**.

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Annual **Meeting**

Highview invites its shareholders and other interested parties to attend the Company's Annual General Meeting at 10:00 AM (MST), Friday, May 27, 2005 at the Calgary Petroleum Club, 319 – 5th Avenue SW, Calgary, Alberta.

HIGHVIEW
RESOURCES LTD.

HIGHLIGHTS

	Years ended November 30 2004	2003
FINANCIAL		
Total revenue	**$ 627,554**	$ 1,001,189
Cash flow (deficiency)	**$ (156,061)**	$ 374,101
Per share	**$ (0.01)**	$ 0.03
Net income (loss)	**$ 46,546**	$ (262,606)
Per share	**$ —**	$ (0.02)
Capital expenditures	**$ 4,662,713**	$ 425,491
Property dispositions	**$ 581,630**	$ —
Working capital (deficiency)	**$ (801,314)**	$ (567,938)
OPERATIONS		
Reserves (proved plus probable)		
Natural gas (MMcf)	**2,028**	1,412
Crude oil (Bbl)	**10,000**	16,000
NGL (Bbl)	**2,000**	—
BOE	**350,000**	251,667
Production		
Natural gas (Mcf)	**93,584**	149,463
Natural gas (Mcfd)	**256**	410
Crude oil (Bbl)	**1,037**	687
Crude oil (Bopd)	**3**	2
NGL (Bbl)	**56**	—
NGL (Bbl/d)	**—**	—
BOE	**16,691**	25,598
BOEd	**46**	70
Product Prices		
Gas ($|Mcf))	**$ 6.30**	$ 6.53
Oil ($|Bbl)	**$ 31.50**	$ 32.07
NGL ($|Bbl)	**$ 28.84**	$ —
Total shares outstanding at November 30	**42,458,333**	14,291,677

To the **SHAREHOLDERS**

On July 1, 2004, a new management team took control of the business affairs of Highview. The Board of Directors appointed John Cassels as President and CEO and Philip Rodd as Vice President, Exploration. These two individuals brought with them over 50 years of experience in the development of junior oil and gas exploration and production companies.

The new team immediately set about the execution of our business plan for Highview. The first stage of the plan was a production acquisition that had a meaningful working interest, a significant existing production stream, an associated spread of undeveloped acreage and with that the potential for additional drilling locations. The acquisition of the Alexander property on November 1, 2004 accomplished all of that.

The second and very critical stage of the plan involved the raising of equity capital to pay for the property acquisition and to provide working capital for Highview's exploration activities. On October 29, 2004 we closed a $4 million common share issue and subsequent to the November 30, 2004 year end, on December 31, 2004, we closed a $2 million flow through share issue. These two private placements satisfied the immediate need for capital.

The third stage of our business plan will take some time to complete. It is the accumulation of a suite of undeveloped acreage and exploration prospects upon which to focus our considerable technical capability. This part of our plan will be accomplished through farmout and/or joint venture arrangements with industry partners.

Material Transaction

On November 1, 2004, Highview closed the acquisition of the Alexander property from an industry partner for $3.5 million cash. The property covers 34 sections of land with 11 wells producing 5.5 MMcf/d (1.1 MMcf/d net to Highview). There are 3 additional wells that are awaiting completion and tie in. The consideration for this acquisition came by way of a $4 million private placement of common shares that closed on October 29, 2004.

Financial

Oil and gas revenues fell 37% from $1.0 million in 2003 to $627,000 in 2004. Cash flow from operations went from $374,000, or $0.03 per share, in 2003 to a negative $156,000, or $(0.01) per share, in 2004. Net earnings in 2004 were $47,000 or $0.00 per share as compared to a loss of $263,000 or $0.02 per share in 2003.

Capital expenditures including the Alexander acquisition totaled $4.7 million. Proceeds from the sale of Bindloss amounted to $582,000.

A $4 million private placement of common shares in October was the only significant financing activity of the year.

Operations

In 2004, Highview participated in the drilling of 8 wells, 6 were completed as gas wells and 2 were dry and abandoned. In addition 4 wells were recompleted. Of these, 2 were successful and 2 were not and are currently suspended.

Production of natural gas averaged 256 Mcf/d for 2004 down 37% from the average of 410 Mcf/d for 2003. The sale of Bindloss closed mid 2004 and was the principal cause of the reduction. The effective date of the Alexander acquisition was

November 1, 2004 and therefore, the incremental gas production from this property had a negligible effect on the average production rate for the year.

Average production rate for 2004 was 46 BOE down 34% from 70 BOE in 2003. Highview exited the year at 200 BOE/d.

Subsequent Events

On December 31, 2004, Highview closed a $2 million private placement of 6.7 million flow through common shares. The issue price was $0.30 per share and it was fully subscribed. On December 17, the Company agreed to a $1.65 million credit facility with our bankers, ATB Financial. Interest will be charged at prime plus 1%. On the same date, the note payable to Humboldt Capital in the amount of $350,000 was retired.

On February 3, 2005 Highview entered into an acquisition and farm-in agreement with an industry partner to acquire land and conduct an active exploration and development program on certain properties in Alberta and Saskatchewan. The Company will earn an interest in 75 sections of land and drill up to 6 wells and complete and tie in 6 additional wells. The cost for the acquisition and development of these properties is estimated to be in excess of $6 million.

Outlook

Crude oil traded on the NYMEX at the beginning of the year for less than $30.00 US per barrel. It closed out 2004 at just under $50.00 US per barrel. Uncertainty about deliverability, not the supply of crude oil, seems to be driving world oil markets. The Middle East can only be described as politically unstable and there are problems in other countries that supply the world with crude. OPEC appears ready to defend the $40.00 US per barrel WTI as the floor price which bodes well for the price of crude at Edmonton through 2005.

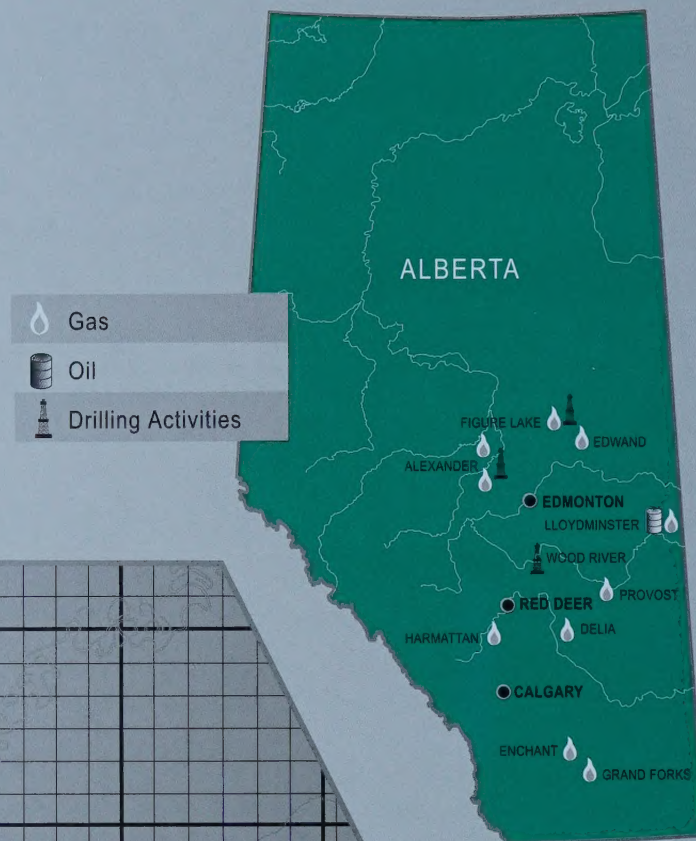
NYMEX natural gas started out the year trading at $5.50 US per Mcf and traded up to a year end price of $7.50 US per Mcf. In North America the manufacturing sector demand for natural gas grew significantly in 2004 while the heavy industrial sector demand fell off because residual oil was priced significantly less than natural gas. To date, North America has not experienced a cold winter which will likely result in a softening of prices in March and April of 2005. However, the market is anticipating a strengthening of gas prices into the summer.

On August 17, 2004, Roger Hume resigned from the Board of Directors. He wished to avoid any conflict of business interest in his capacity as the CEO of a junior oil and gas company. Highview is very grateful for his contribution over the past six years.

On behalf of the Board,

John H. Cassels
President & CEO
February 3, 2005

AREAS of Activity



ALEXANDER

Operations SUMMARY

During the year, Highview participated in the drilling of 8 gross wells (1.3 net) with an average working interest of 16%. The first well, Figure Lake 02/4-25 (10% WI), was cased as a dual zone gas well. Initial production is anticipated during the first quarter of 2005 at 500 Mcfd (50 Mcfd net to Highview). A second well, Bindloss 15-27 (10% WI) was dry and abandoned. A 640 acre parcel of land was acquired during this period at Figure Lake capturing a re-entry opportunity at 02/7-8 well. The well was recompleted but is currently suspended due to bitumen plugging.

Two wells were drilled at Hays/Grand Forks during the reporting period. The first well, Hays 7-29 (10% WI), was abandoned. A second well, Grand Forks 8-12 (10% WI), was cased and completed with initial production anticipated during the first quarter of 2005 at 300 Mcfd (30 Mcfd net to Highview).

On November 1, 2004, Highview acquired a 20 percent working interest in 34 sections (21,920 acres) of exploration and development lands, including 11 producing wells at Alexander/Newton. Highview participated in the drilling of four wells on the Alexander/Newton property during the fourth quarter of 2004. The first well, Newton 11-1 (25% WI), was placed on production in December 2004 at 1,000 Mcfd (250 Mcfd net to Highview). Three additional Highview interest wells, Alexander 8-35 (20% WI), Newton 8-14(17.08% WI), and Newton 10-11 (26.28% WI) are anticipated to be completed and tied in during the first quarter of 2005.

Highview participated in three additional recompletions during this period. A well at Edwand 9-29 (10% WI) was successfully recompleted, with initial production rates of 359 Mcfd (36 Mcfd net to Highview). A 2-dimensional seismic line shot at Edwand, has identified an additional drilling prospect, which is anticipated to be drilled during the fourth quarter of 2005. Alexander 14-13 (17% WI) was successfully recompleted with initial production rates of 148 Mcfd (25 Mcfd net to Highview), while the Bolloque 02/7-11 (10% WI) well was unsuccessful and is currently suspended.

A 640 acre parcel of land was acquired by Highview in May of 2004 at Lloydminster (50% WI). A second 640 acre parcel of land (100% WI) was acquired in the Wood River on a new prospect. Highview also acquired 22 miles of trade and proprietary 2-dimensional seismic data over the prospect and anticipate spudding a well at Wood River in the first quarter of 2005.

Land

	Undeveloped		Developed		Total	
Acres	Gross	Net	Gross	Net	Gross	Net
As at November 30, 2003	58,293	7,678	10,767	3,100	69,060	10,778
Acquisitions	16,008	4,089	7,686	1,427	23,694	5,516
Expires	(16,867)	(3,687)	(3,200)	(1,402)	(20,067)	(5,089)
As at November 30, 2004	57,434	8,080	15,253	3,125	72,687	11,205

Present Value of **RESERVES**

Total Reserves Forecast as of December 1, 2004, based on October 1, 2004 Price Forecasts

	Reserves			Present Value before Income Tax			
	Oil	Gas	NGL	Undisc.	10%	12%	15%
	(MBbl)	(MMcf)	(MBbl)	($ thousands)			
Proved developed	3	1,382	1	5,444	3,853	3,670	3,438
Proved undeveloped	—	370	1	1,533	1,160	1,108	1,038
Total proved	3	1,752	2	6,977	5,013	4,778	4,476
Probable additional	7	276	—	1,345	592	532	461
Total proved plus probable	**10**	**2,028**	**2**	**8,322**	**5,605**	**5,310**	**4,937**

SUMMARY OF **Crude Oil Price Forecasts** (October 1, 2004)

Year	Inflation Rate	Exchange Rate	WTI at Cushing Oklahoma $/bbl U.S. Current	Edmonton City Gate $/bbl Cdn. Current	Heavy Oil 12 Deg. API Hardisty $/bbl Current
2005	0.0%	0.750	$40.00	$52.20	$39.70
2006	2.0%	0.750	$36.75	$47.85	$36.85
2007	2.0%	0.750	$35.40	$46.05	$35.05
2008	2.0%	0.750	$33.95	$44.15	$33.15
2009	2.0%	0.750	$34.65	$45.10	$34.10
2010	2.0%	0.750	$35.35	$46.00	$35.00
2011	2.0%	0.750	$36.05	$46.95	$35.95
2012	2.0%	0.750	$36.75	$47.90	$36.90
2013	2.0%	0.750	$37.50	$48.85	$37.85
2014	2.0%	0.750	$38.25	$49.85	$38.85

SUMMARY OF **Natural Gas Price Forecasts** (October 1, 2004)

Year	APMC Average Price $/Mcf Current	AECO Average Price $/Mcf Current	Alberta Direct Spot Sales $/Mcf Current	NYMEX US$/Mcf Current
2005	$6.75	$7.00	$6.80	$6.00
2006	$6.60	$6.85	$6.65	$5.90
2007	$6.00	$6.25	$6.05	$5.45
2008	$5.80	$6.05	$5.85	$5.30
2009	$5.95	$6.20	$6.00	$5.40
2010	$6.10	$6.35	$6.15	$5.50
2011	$6.25	$6.50	$6.30	$5.65
2012	$6.40	$6.65	$6.45	$5.75
2013	$6.55	$6.80	$6.60	$5.85
2014	$6.75	$7.00	$6.80	$6.00

RECONCILIATION OF **Changes in Reserves**

Natural Gas (MMcf)

	Proved	Probable	Total
November 30, 2003	331	1,081	1,412
Additions	84	17	101
Acquisitions (net)	1,427	(792)	635
Production	(94)	—	(94)
Revisions	4	(30)	(26)
November 30, 2004	1,752	276	2,028

Oil (MBbl)

	Proved	Probable	Total
November 30, 2003	6	10	16
Additions	—	—	—
Acquisitions	—	—	—
Production	(1)	—	(1)
Revisions	(3)	(2)	(5)
November 30, 2004	2	8	10

NGL (MBbl)

	Proved	Probable	Total
November 30, 2003	—	—	—
Additions	—	—	—
Acquisitions	—	—	—
Production	—	—	—
Revisions	2	—	2
November 30, 2004	2	—	2

BOE @ 6:1 (MBOE)

	Proved	Probable	Total
November 30, 2003	61	190	251
Additions	14	3	17
Acquisitions (net)	237	(136)	101
Production	(16)	—	(16)
Revisions	2	(5)	(3)
November 30, 2004	298	52	350

MANAGEMENT'S **Discussion & Analysis**

Prepared as at February 3, 2005

The following discussion and analysis is management's assessment of Highview's historical, financial and operating results. This review should also be read with audited consolidated financial statements of the Company for the year ended November 30, 2004 and with the Company's Annual Information Form available through SEDAR at www.sedar.com.

This discussion contains forward-looking statements that involve risk and uncertainties. Such information, although considered reasonable by management at the time of preparation, may prove to be incorrect and actual results may differ materially from those anticipated in the statements made. Financial data were prepared using Canadian generally accepted accounting principles.

PRODUCTION & PRICES

2004	Q1	Q2	Q3	Q4	Total
Gas (Mcf)	29,816	19,091	12,670	32,007	93,584
Per Day	331	208	138	352	256
Average Price	$ 6.25	$ 6.53	$ 6.60	$ 6.08	$ 6.30
Oil (Bbl)	308	203	255	271	1,037
Per Day	3	2	3	3	3
Average Price	$ 31.67	$ 26.15	$ 37.39	$ 29.79	$ 31.50
NGL (Bbl)	—	—	17	39	56
Per Day	—	—	—	—	—
Average Price	$ —	$ —	$ 16.24	$ 34.33	$ 28.84
BOE@6.1	5,277	3,385	2,384	5,645	16,691
Per Day	59	37	26	62	46

2003	Q1	Q2	Q3	Q4	Total
Gas (Mcf)	36,917	37,541	33,247	41,758	149,463
Per Day	410	408	361	459	410
Average Price	$ 6.90	$ 7.95	$ 6.05	$ 5.23	$ 6.53
Oil (Bbl)	112	133	269	173	687
Per Day	1	1	3	2	2
Average Price	$ 39.48	$ 30.92	$ 33.59	$ 31.66	$ 32.07
NGL (Bbl)	—	—	—	—	—
Per Day	—	—	—	—	—
Average Price	$ —	$ —	$ —	$ —	$ —
BOE@6.1	6,265	6,390	5,810	7,133	25,598
Per Day	70	69	63	78	70

Highview's working interest gas sales volumes during fiscal 2004 were 38% lower than the prior year. This decline is primarily due to the sale of the Bindloss-Atlee properties in May 2004 and other production declines. Gas sales for the fourth quarter are down from 41,758 Mcf to 32,007 Mcf due to sale of the Bindloss-Atlee properties partially offset by one month's production from Alexander and Newton. Company oil sales volumes increased 51% during fiscal 2004 compared to fiscal 2003 as the Lloydminister well transitions from a high GOR well to a low GOR heavy oil well as anticipated. Working interest heavy oil sales volumes for this well averaged 3 Bopd during the fourth quarter compared to 2 Bopd during the same period in 2003.

Natural gas prices remain strong averaging $6.30 per Mcf during 2004 down 4% from an average of $6.53 in 2003. Oil prices received of $31.50 in 2004 averaged 6% lower than the $32.07 in fiscal 2003.

NET OPERATING Income (non GAAP presentation)

2004	Q1	Q2	Q3	Q4	Total
Sales	$ 202,708	$ 127,395	$ 101,074	$ 196,377	$ 627,554
Royalties	14,297	37,108	15,121	33,207	99,733
Operating expenses	61,418	35,824	39,358	84,052	220,652
	$ 126,993	$ 54,463	$ 46,595	$ 79,118	$ 307,169
BOE production	5,277	3,385	2,384	5,645	16,691
Net Operating Income/BOE					
Sales	$ 38.41	$ 37.64	$ 42.40	$ 34.79	$ 37.60
Royalties	2.71	10.96	6.34	5.88	5.98
Operating expenses	11.64	10.58	16.51	14.89	13.22
	$ 24.07	$ 16.09	$ 19.54	$ 14.02	$ 18.40

2003	Q1	Q2	Q3	Q4	Total
Sales	$ 259,622	$ 310,493	$ 221,971	$ 209,103	$ 1,001,189
Royalties	53,194	74,092	13,013	41,067	181,366
Operating expenses	39,572	41,980	62,420	80,970	224,942
	$ 166,856	$ 194,421	$ 146,538	$ 87,066	$ 594,881
BOE production	6,265	6,390	5,810	7,133	25,598
Net Operating Income/BOE					
Sales	$ 41.44	$ 48.59	$ 38.20	$ 29.31	$ 39.11
Royalties	8.49	11.59	2.24	5.75	7.08
Operating expenses	6.32	6.57	10.74	11.35	8.79
	$ 26.63	$ 30.43	$ 25.22	$ 12.21	$ 23.24

Revenue for the fourth quarter 2004 is 6% lower than this same period in 2003 and fiscal 2004 is 37% lower than the same period for 2003. These variances are principally due to the sale of the Bindloss-Atlee properties and the decline in gas sales volumes during the first three quarters in fiscal 2004 offset by the acquisition of Alexander and Newton effective November 1, 2004. Royalty rates decreased in the fourth quarter to 17% compared to 20% for the same period in 2003. This decrease reflects the royalty burden on the remaining production exclusive of the Bindloss-Atlee properties, prior year crown royalty adjustments and the new Alexander and Newton wells. Overall the royalty rate for fiscal 2004 is 16% compared to 18% in fiscal 2003. 2004 ARTC claims are similar to fiscal 2003.

Total operating expenses were higher through the fourth quarter 2004 compared to the same period in 2003 due to Lloydminster maintenance and repairs. For fiscal 2004, the operating costs of $221,000 were down slightly compared to the same period in 2003. However, with the decreased Bindloss and Lloyd production volumes in 2004 compared to 2003, Highview's operating costs on a BOE basis has raised from $8.79 in 2003 to $13.22 in 2004.

General & Administrative EXPENSE

	2004	2003
G&A Expenses	$ 443,670	$ 198,017
per BOE	$ 26.58	$ 7.74

At November 30, 2004 Highview had 3 employees and 6 consultants, this together with the significant increase in the level of activity has resulted in a large growth in G&A expense during 2004 compared to the same period in 2003.

Highview does not capitalize any of its overhead costs.

Depletion, Depreciation & Accretion EXPENSE

	2004	2003
Depletion & depreciation expenses	$ 243,417	$ 371,617
Accretion – Asset Retirement Obligation	4,181	4,101
Total	$ 247,598	$ 375,718
per BOE	$ 14.83	$ 14.68

Depletion expense has declined 34% for fiscal 2004 compared to the same period in 2003. For the three month period ended November 30, 2004, depletion is higher compared to the corresponding period in 2003 reflecting the acquisition of the Alexander property. The current depletion rates are reflective of the remaining proven reserves and the Company has updated its reserve estimates to December 1, 2004. Longer term, rates are expected to return to more acceptable levels with new reserve and production additions added at lower costs of finding and development.

Interest EXPENSE

	2004	2003
Note payable	$ 19,560	$ 22,763
per BOE	$ 1.17	$ 0.89

Interest expense of $19,560 for fiscal 2004 ($22,763 – 2003) relates to the loan facility with Humboldt Capital Corporation. The loan balance as of November 30, 2004 was $350,000 ($465,826 as at November 30, 2003). This loan is secured by a debenture.

Capital EXPENDITURES

	2004	2003
Land	$ 183,258	$ 123,916
Geological & geophysical	212,466	50,135
Drilling & completions	599,715	174,309
Equipment, facilities & pipeline	132,443	72,831
Office & computer equipment	20,831	4,300
Sub-total	1,148,713	425,491
Acquisitions	3,514,000	—
Total	$ 4,662,713	$ 425,491

Fixed asset expenditures during 2004 totaled $4,663,000, inclusive of the $3,514,000 acquisition of Alexander. Post acquisition drilling, completion and facilities in Alexander and Newton totaled $507,000 and $209,000 for land and seismic expenditures in the Wood River area. The Company expended a further $395,000 on the joint venture drilling program with Diaz during the year.

2004 SHARE TRADING Activity

Highview's common shares are traded on TSX Venture Exchange under the trading symbol "HVW". The shares traded at a high of $0.30 per common share (November 2004) and a low of $0.11 per common share (May 2004). trading volume was 1.2 million shares for the year with 65% of the total volume occurring in Q4 of fiscal 2004.

NET ASSET Value

	2004	2003
Reserves (10% NVP, before income taxes), as at December 1, 2004		
Proved	**$ 5,013,000**	$ 799,000
Probable	**592,000**	1,632,000
	5,605,000	2,431,000
Undeveloped Land (@$100/acre)	**808,000**	767,800
Working Capital (Deficiency)	**(801,314)**	(567,938)
Net Asset Value	**$ 5,611,686**	$ 2,630,862
Net Asset Value per Share	$ **0.13**	$ 0.18

In fiscal 2004 Highview increased it's proved plus probable reserve value by 130% from $2.4 million to $5.6 million by way of the Alexander acquisition and the 2004 drilling program. Net asset value also increased from $2.6 million ($0.18 per share) to $5.6 million ($0.13 per share) as a result of the Alexander acquisition which was funded by way of common share issuance.

TAX Pools

	2004	2003
Canadian exploration expense	$ 899,972	$ 627,750
Canadian development expense	292,710	138,812
Undepreciated capital cost	1,087,602	378,210
Canadian oil & gas property expense	2,931,217	200,734
Loss carry-forward (expiry from 2004 to 2006)	92,274	92,274
	$ 5,303,775	$ 1,437,780

At November 30, 2004, Highview had income tax pools of $5.3 million which will enable the Company to shelter increases in cash flow without becoming immediately cash taxable. As at year-end 2004 tax pools exceed the net book value of property, plant and equipment. Highview has not recognized this future tax asset. The Company does not anticipate that this future tax asset will be recovered from taxable income generated from currently held assets but expects to use these with future production additions. Future asset dispositions can have an impact on the tax pool base depending on the value received for the asset and its booked value.

Liquidity and Capital Resources

At November 30, 2004, Highview had a working capital deficiency of $801,314. The note payable to its major shareholder, Humboldt Capital Corporation was retired on December 17, 2004.

Subsequent to the year ended November 30, 2004, Highview completed a private placement for $2,000,000. As of December 31, 2004 the Company was in a positive working capital position.

Related Party Transactions

During the past three years, the Company participated in a joint exploration, development and land acquisition program with Diaz Resources Ltd. ("Diaz"), a company controlled by Humboldt Capital Corporation. During 2004, $395,000 (8%) of capital expenditures were expended through this venture and $396,000 (93%) in 2003.

Highview also paid Diaz a monthly administration fee of $2,000 in fiscal 2003. The administrative fees were discontinued mid fiscal 2004 with the set up of Highview's own office space and administrative support.

Changes in accounting Principles and Practices

Stock-based compensation

The Company has adopted the new recommendations of CICA Handbook Section 3870, "Stock-based compensation and other stock-based programs", effective December 1, 2003. This Section establishes accounting standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based programs. This Section sets out a fair value based method of accounting and is required for certain stock-based transactions and applied to awards granted on or after January 1, 2002. The change was accounted for retroactively without restatement of prior period numbers. Using the fair value method, compensation costs of stock based compensation are estimated and charged to earnings in the period of the option grant. As a result of this change in policy, Highview incurred stock-based compensation expenses for the fiscal year 2004 of $27,942. The Company retroactively booked $36,077 to contributed surplus for a total contributed surplus of $64,019.

Oil and gas full cost accounting

As of December 1, 2003 the Company adopted Accounting Guideline 16 "Oil and Gas Accounting – Full Cost Accounting" (AcG-16), replacing AcG-5. AcG-16 provides for the methodology consistent with CICA Section 3063. "Impairment of Long-lived Assets" and CICA Section 3475, "Disposal of Long-lived Assets and Discontinued Operations."

The new standards prescribed the recognition of impairments only if the carrying amount of a long-lived asset is not recoverable from its discounted cash flows and measure the impairment amount as the difference between carrying amount and the fair value. In addition, discontinued operations disclosure will be required upon the disposition of a component or cost center of the entity rather than an entire business segment. There was no effect on the Company's financial statements.

Business Risk

The Company is engaged in the exploration and development of crude oil and natural gas. Highview's business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced.

Financial risks associated with the petroleum industry include fluctuation in commodity prices, interest rates and currency exchange rates. Other financial risks include, but are not limited to, the availability of funds through equity markets and or debt to invest in capital projects to support Company growth.

Operational risks include competitive environmental factors, reservoir performance uncertainties, and dependence upon third parties for commodity transportation and processing and a complex regulatory environment.

The Company closely follows the applicable government regulations. Highview carries insurance coverage to protect itself against those potential losses that could be economically insured against.

Share Capital

The company has authorized an unlimited number of voting common shares. As at February 3, 2005 there were outstanding:

49,125,000 Shares	$6,825,602

Warrants

The Company issued 26,666,666 common shares and 2,000,000 warrants on October 29, 2004. Each warrant entitles the holder to acquire one common share at a price of $0.25 per share. The warrants expire December 1, 2005.

Outlook

Highview believes that oil and gas commodity prices will remain strong throughout 2005. World oil supply concerns and increased world demand strengthened oil prices in 2004 with little change anticipated in the near term. The resurgence of the North American economy combined with continued increasing gas demand from declining established reserves indicates continued support of higher gas prices. This positive price environment should continue equity support for the oil and gas industry and benefit an emerging company such as Highview Resources Ltd.

MANAGEMENT'S Report

The accompanying consolidated financial statements of Highview Resources Ltd. and all of the information in this annual report are the responsibility of management and have been approved by the Highview Board of Directors. Management has prepared the consolidated financial statements in accordance with Canadian accepted accounting principles and where alternative accounting methods exist, management has chosen those it deems most appropriate.

Financial statements are not precise since they include amounts based on estimates and judgments. Such amounts have been determined on a reasonable basis to ensure the financial statements are presented fairly in all material aspects. Management has prepared the financial information in this annual report and has ensured that it is consistent with the financial statements. The Company maintains internal accounting and administrative controls designed to provide reasonable assurance that the consolidated financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Highview Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and for reviewing and approving the consolidated financial statements. This is carried out principally through the Audit Committee. Highview's auditors, PriceWaterhouseCoopers LLP, have been given full access to the audit committee.

John H. Cassels
President and Chief Executive Officer

Charles A. Teare
Chief Financial Officer

Auditors' REPORT

To the Shareholders of Highview Resources Ltd.

We have audited the consolidated balance sheets of Highview Resources Ltd. as at November 30, 2004 and 2003 and the consolidated statements of income (loss) and deficit and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants

Calgary, Alberta
January 21, 2005

Consolidated **BALANCE SHEET**

As at November 30,		2004		2003
Assets				
Current Assets				
Cash	$	**23,049**	$	50,974
Accounts receivable		**275,347**		184,748
		298,396		235,722
Property, plant and equipment *(Note3)*		**5,506,534**		1,083,233
Total Assets	$	**5,804,930**	$	1,318,955
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	$	**749,710**	$	337,834
Notes payable *(Note 8)*		**350,000**		465,826
		1,099,710		803,660
Asset retirement obligation *(Note 6)*		**288,152**		62,687
		1,387,862		866,347
Shareholders' Equity				
Share capital *(Note 4)*		**4,971,556**		1,081,584
Contributed surplus		**64,019**		—
Deficit		**(618,507)**		(628,976)
		4,417,068		452,608
Total Liabilities and Shareholders' Equity	$	**5,804,930**	$	1,318,955

Contingencies (Note 9)

See accompanying Notes to Consolidated Financial Statements

On behalf of the Board:

John H. Cassels
Director

Charles A. Teare
Director

Consolidated Statement of **INCOME (LOSS) & DEFICIT**

Year Ended November 30	2004	2003
Revenue		
Oil and natural gas sales	$ 627,554	$ 1,001,189
Royalties, net of Alberta Royalty Tax Credit	(99,733)	(181,366)
	527,821	819,823
Gain on sale of properties	377,747	—
	905,568	819,823
Expense		
Operating	220,652	224,942
General and administrative	443,670	198,017
Stock-based compensation	27,942	—
Interest	19,560	22,763
Depletion, depreciation and accretion	247,598	375,718
Write-down of oil and gas properties	—	260,989
	959,422	1,082,429
Loss before income tax recovery	(53,854)	(262,606)
Future income tax recovery *(Note 5)*	(100,400)	—
Net income (loss) for the year	46,546	(262,606)
Deficit – Beginning of the year	(628,976)	(366,370)
Adjustment for adoption of stock-based compensation *(Note 2)*	(36,077)	—
Revised deficit – End of year	$ (618,507)	$ (628,976)
Net income (loss) per share	$ 0.00	$ (0.02)

See accompanying Notes to Consolidated Financial Statements

Consolidated Statement of **CASH FLOWS**

Year ended November 30	2004	2003
Cash provided by (used for):		
Operating Activities		
Net income (loss)	$ 46,546	$ (262,606)
Non-cash items:		
Depreciation,depletion and accretion	247,598	375,718
Excess depletion	—	260,989
Stock-based compensation	27,942	—
Future taxes recovery	(100,400)	—
Gain on sale of properties	(377,747)	—
	(156,061)	374,101
Change in non-cash working capital	465,277	(53,495)
	309,216	320,605
Financing Activities		
Issuance of common shares	3,873,017	—
Notes payable to Shareholder	(115,826)	155,826
	3,757,191	155,826
Investing Activities		
Acquisition of property, plant and equipment	(4,662,713)	(425,491)
Disposition of property, plant and equipment	581,630	—
Change in non-cash working capital	(13,249)	(25,810)
	(4,094,332)	(451,301)
Increase (decrease) in cash	(27,925)	25,130
Cash, beginning of the year	50,974	25,844
Cash, end of year	$ 23,049	$ 50,974
Supplementary information regarding cash payments:		
Interest expense	$ 10,655	$ 17,387

See accompanying Notes to Consolidated Financial Statements

The consolidated financial statements of Highview Resources Ltd. ("Company) and its wholly owned subsidiary, Royal Crusader Energy Corp. ("Royal Crusader") have been prepared by management in accordance with accounting principles generally accepted in Canada.

1. ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Royal Crusader.

Property, plant and equipment

The Company follows the full cost method of accounting for petroleum and natural gas operations. Under this method all costs of exploration for and development of petroleum and natural gas reserves are capitalized by cost centre. Costs include lease acquisition costs, geological and geophysical expense, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead charges directly related to exploration activities.

The capitalized costs are depleted and depreciated using the unit-of-production method based on proven petroleum and natural gas reserves, as determined by independent consulting engineers. Oil and natural gas liquids reserves and production are converted into equivalent units of natural gas based on relative energy content. In determining the depletion base, the Company includes future costs to be incurred in developing proven reserves and excludes the cost of undeveloped land.

An impairment loss is recognized in net earnings when the carrying amount is not recoverable and the carrying amount exceeds fair value. The carrying amount is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows from proven reserves. If the sum of cash flows is less than carrying amount, the impairment loss is limited to the amount by which the carrying amount exceeds the sum of:

a) The fair value of proved and probable reserves; and

b) The costs of unproven properties that have been subject to a separate impairment test and contain no probable reserves.

In determining the depletion and depreciation provisions for crude oil and natural gas assets, the Company includes any excess of the net book value of those crude oil and natural gas assets over the fair value.

Proceeds from the sale of oil and gas properties are normally applied as a reduction of the capitalized costs without recognition of a gain or loss, except where such a disposal would alter the depletion and depreciation rates by 20% or more.

Depreciation is provided on other assets at annual rates of 20%, on a declining basis.

Asset retirement obligation

Asset retirement obligations ("ARO") are initially measured at estimated fair market value in the period incurred and subsequently adjusted for accretion of discount and any changes in the underlying cash flows. The ARO cost is capitalized as part of the cost of the related asset and amortized into earnings over time using the unit-of-production method. With time, accretion will increase the carrying value of the obligation. Accretion is expensed.

Joint ventures

The Company's activities are conducted jointly with others. These financial statements reflect the Company's proportionate interest in such activities.

Share based compensation plan

The Company has a stock based compensation plan, which is described in Note 4.

The Company has adopted the fair value method for accounting for stock-based compensation. Using the fair value method, compensation costs of stock-based compensation are estimated and charged to earnings in the period the option is granted, taking into consideration the vesting period of the options.

Flow-through shares

Share capital is reduced in the period by the future tax effect of renouncing income tax cost to the purchaser of flow-through shares when the expenditures are renounced. The tax effect is calculated using the expected rate of tax.

Revenue recognition

Revenue associated with the sale of crude oil, natural gas and natural gas liquids owned by the Company is recognized when title passes from the Company to its customers.

Use of accounting estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The amounts recorded for depletion, depreciation and amortization of petroleum and natural assets as well as the provision for asset retirement obligations are based on estimates. The ceiling test is based on estimates of reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in the future could be significant.

2. CHANGE IN ACCOUNTING POLICY

a) Stock-based compensation

The Company has adopted the new recommendations of CICA Handbook Section 3870, "Stock-based compensation and other stock-based programs", effective December 1, 2003. This Section establishes accounting standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based programs. This Section sets out a fair value based method of accounting and is required for certain stock-based transactions and applied to awards granted on or after January 1, 2002. The change was accounted for retroactively without restatement of prior period numbers. Using the fair value method, compensation costs of stock based compensation are estimated and charged to earnings in the period of the option grant. As a result of this change in policy, stock-based compensation expenses for the year were $27,942. The Company retroactively booked $36,077 to contributed surplus for a total contributed surplus of $64,019.

b) Oil and gas full cost accounting

As of December 1, 2003 the Company adopted Accounting Guideline 16 "Oil and Gas Accounting – Full Cost Accounting" (AcG-16), replacing AcG-5. AcG-16 provides for the methodology consistent with CICA Section 3063. "Impairment of Long-lived Assets" and CICA Section 3475, "Disposal of Long-lived Assets and Discontinued Operations."

The new standards prescribed the recognition of impairments only if the carrying amount of a long-lived asset is not recoverable from its discounted cash flows and measure the impairment amount as the difference between carrying amount and the fair value. In addition, discontinued operations disclosure will be required upon the disposition of a component or cost center of the entity rather than an entire business segment. There was no effect on the Company's financial statements.

c) Asset Retirement Obligation

As at November 30, 2003, the Company had retroactively adopted the Canadian Institute of Chartered Accountants ("CICA") guideline for accounting for asset retirement obligation ("ARO"). Under this standard, the Company must recognize the fair value of an ARO as a liability in the period in which it is incurred if a reasonable estimate of fair value can be made. The present value of the estimated ARO is capitalized as part of the net capitalized asset base and the depreciation of the capitalized asset retirement cost is determined on a basis consistent with depletion, depreciation and amortization. With time accretion will increase the carrying amount of the obligation. Accretion is expensed.

Previously, the Company provided for estimated future abandonment and site restoration costs for its oil and gas properties using the unit-of-production method.

3. PROPERTY, PLANT AND EQUIPMENT

As at November 30,	**2004**	2003
Petroleum & natural gas properties	**$ 7,218,783**	$ 2,572,895
Accumulated depletion	**(1,738,265)**	(1,501,352)
	5,480,518	1,071,543
Furniture, fixtures & other assets	**34,370**	13,540
Accumulated depreciation	**(8,354)**	(1,850)
	33,535	11,690
	$ 5,506,534	$ 1,083,233

At November 30, 2004, costs of $294,226 were excluded from the depletable cost base (November 30, 2003 – $125,523). These cost were excluded from the depletable cost base as they represent expenditures on unproven properties as at year end. During 2004, no general and administrative costs relating to exploration and development activities were capitalized as part of property, plant and equipment (2003 – $Nil).

The Company applied the ceiling test calculation using the Company's estimate of future prices as at November 30, 2004. This resulted in no ceiling test deficiency for fiscal 2004 compared to a write-down $260,989 in 2003.

The Company based its estimates on the future natural gas price quotes for Canadian gas at the AECO, adjusted for heat content, and future crude oil price quotes for Edmonton Light, adjusted for quality.

Price Estimates used for Ceiling Test – October 2004

Year	Alberta AECO Average	Edmonton City Gate
2004	$ 7.00	$ 57.55
2005	$ 7.00	$ 52.20
2006	$ 6.85	$ 47.85
2007	$ 6.25	$ 46.05

4. SHARE CAPITAL

Authorized

Unlimited number of voting common shares, no stated par value

Unlimited number of first preferred shares

Unlimited number of second preferred shares

Common Shares

	Amount	Shares
Balance November 30, 2003 and 2002	$ 1,081,584	14,291,667
Issue of Flow Through Shares (1)	300,000	1,500,000
Offering expenses	(11,245)	—
Tax effect of flow through offering	(100,400)	—
Private Placement (2)	4,000,000	26,666,666
Offering expenses	(298,383)	—
Balance at November 30, 2004	$ 4,971,556	42,458,333

(1) On December 22, 2003 Highview closed a flow through offering of 1,500,000 shares at a price of $0.20 per share for gross proceeds of $300,000. Highview has renounced Canadian Exploration Expense in an amount equal to $0.20 for each flow-through share issued.

(2) On October 29, 2004 the Company completed a private placement share issuance of 26,666,666 common shares with net proceeds of $3,701,617 ($4,000,000 gross). Through the private placement, the Company issued 2,000,000 broker warrants to purchase common shares at an exercise price of $0.25. The broker warrants expire December 1, 2005.

Income (loss) per share

Basic earnings per share are calculated by dividing the weighted average number of the aggregate outstanding shares during the period into net earnings attributable to the shareholders. Weighted average number of shares outstanding for 2004 was 18,043,265 (2003 – 14,291,677). Diluted weighted average number of shares outstanding for 2004 was 18,119,471 (2003 – 14,291,677).

The Company uses the treasury stock method to determine the dilutive effect of stock options, warrants and other dilutive instruments. Under the treasury stock method, only "in the money" dilutive instruments impact the dilution calculations.

Stock Option Plan

The Company established an employee compensation plan, which was approved by the Shareholders on May 15, 2003. Pursuant to the plan, the Company may grant to employees and directors options to purchase up to 1,420,000 of its shares outstanding at the time of the grant. Options are granted to purchase common shares. Options are exercisable for a maximum period of 5 years. One-third of the options granted vest on the day of grant, one-third after one year and the balance vest after two years. The exercise price for the options is set by the Board of Directors at market, or higher, on the day of the grant.

Stock Options	**2004**		2003	
	Shares	**Weighted Average Exercise Price ($)**	Shares	Weighted Average Exercise Price($)
Outstanding, beginning of the year	1,100,000	0.15	400,000	0.15
Options expired:				
December 2003	(400,000)	0.15	—	—
May 2004	(700,000)	0.15	—	—
Options granted:				
August 2003	—	—	700,000	0.15
August 2004	200,000	0.20	—	—
Outstanding, end of the year	200,000	0.20	1,100,000	0.15
Exerciseable, end of the year	66,666	0.20	633,400	0.15

In August 2004, the Company granted options to purchase up to 200,000 common shares at an exercise price of $0.20 per share. These options have been granted to four of five directors of the Company. The fair value of the option issued as at November 30, 2004, has been estimated at $31,400, using the Black-Scholes option pricing model as follows:

Weighted average fair value per option ($)	0.16
Risk free interest rate (%)	3.36
Volatility (%)	155
Expected life (years)	3
Expected dividends	—

Stock-based compensation of $27,942 was expensed during fiscal 2004 and is disclosed as a separate classification of shareholders' equity as contributed surplus. The amount of $36,077 was recorded retroactively to contributed surplus and retained earnings for the fair value of options granted after December 1, 2002.

5. INCOME TAXES

The provision for income taxes in the consolidated statement of operations and income varies from the amount that would be computed by applying the expected tax rate to earnings, before income taxes. The expected tax rate used was 39.69% (2003 – 42.1%).

The principal reasons for differences between such "expected" income tax expense and the amount actually recorded are as follows:

	2004	2003
Computed expected income tax expense (recovery)	$ (20,928)	$ (106,986)
Increase (decrease) in income taxes resulting from:		
Federal resource allowance	8,514	(18,039)
Non-deductible royalties	14,072	17,908
Alberta Royalty Tax Credit	(4,066)	(4,247)
Income tax rate change and other	(14,489)	15,221
Tax benefit of losses and other timing differences not recognized	—	96,143
Recognition of previously unrecognized losses	(83,503)	—
Actual income tax expense (recovery)	$ (100,400)	$ —

As at November 30, 2004 , the Company had the following tax deductions available to reduce future taxable income:

	2004	2003
Canadian exploration expense	$ 899,972	$ 627,750
Canadian development expense	292,710	138,812
Undepreciated capital cost	1,087,602	378,210
Canadian oil and gas property expense	2,931,217	200,734
Loss carry-forward (expiry from 2004 to 2006)	92,274	92,274
	$ 5,303,775	$ 1,437,780

Future income tax on the balance sheet is comprised of temporary differences and future income tax reductions. These temporary differences are as follows:

	2004	2003
Excess carrying value of assets over associated tax basis	$ 97,908	$ (132,652)
Future site restoration costs	(94,740)	(21,702)
Share issue costs	(83,277)	—
Non-capital tax losses	(88,861)	(35,636)
Unrecognized tax asset	$ 168,970	$ 189,990

6. ASSET RETIREMENT OBLIGATION

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties.

	2004	2003
Asset Retirement Obligation, beginning of year	$ 62,687	$ 52,532
Liabilities incurred	168,870	6,054
Changes in estimated cash flows	75,757	—
Liabilities settled in asset disposition	(23,343)	—
Accretion expense	4,181	4,101
Asset Retirement Obligation, end of year	$ 288,152	$ 62,687

The total undiscounted amount of estimated cash flows required to settle the obligation is $366,145 (2003 – $83,021), which has been discounted using a credit-adjusted risk free rate of 7 percent. All of these obligations will be incurred between 2005 and 2018, with an average obligation date of 2011.

7. FINANCIAL INSTRUMENTS

The Company's financial instruments that are included in the balance sheet are comprised of cash, accounts receivable, accounts payable and accrued liabilities and notes payable to shareholder.

a) Fair values of financial assets and liabilities

The fair values of financial instruments that are included in the balance sheet approximate their carrying amount due to the short-term maturity of those instruments.

b) Credit risk

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

8. RELATED PARTY TRANSACTIONS

During the year ended November 30, 2004, Highview paid Diaz Resources Ltd. ("Diaz"), a company whose principal shareholder is Humboldt Capital Corporation ("Humboldt"), which also is the principal shareholder of Highview, a total of $11,350 (2003 – $24,000) as its share of overhead costs incurred by Diaz. The charge is estimated based on the time spent on Highview's business.

During the year ended November 30, 2004, the Company participated in a joint exploration, development and land acquisition program with Diaz. At November 30, 2004, Highview had a net payable to its joint venture partner of $117,703 (2003 – receivable of $112,223), which was paid during the normal course of operations.

During the year ended November 30, 2003, Humboldt agreed to advance funds to Highview on an unsecured basis. The loan was payable on demand with no specific terms of repayment and Highview paid interest at a rate of prime plus 2% on funds advanced.

In fiscal 2004, Highview entered into a revolving production loan facility which provides for advances of up to $450,000 to fund ongoing operations. This loan is subject to an annual review and is secured by way of a $450,000 supporting promissory note and a $1.0 million debenture providing a floating charge over all undertakings of the Company. At November 30, 2004, Highview owed Humboldt $350,000 (2003 – $465,826). Interest expense of $20,543 (2003 - $22,763) has been charged during the year.

9. CONTINGENT LIABILITY

The Company is named as a Third Party in an action brought by another company's failure to deliver the minimum quantity of natural gas under a contract. The total claim against Highview is for $67,000 and the Company has filed a Statement of Defense. Management is of the opinion that the claim is without merit. No provision has been made in the financial statements for this action at November 30, 2004.

10. SUBSEQUENT EVENTS

On December 31, 2004, Highview announced the completion of an offering for 6,666,666 common shares on a flow-through basis at an issue price of $0.30 per share. The issuance was fully subscribed resulting in gross proceeds of $2,000,000. After this offering, Highview has 49,125,000 common shares outstanding.

The Company repaid the Humboldt loan in full on December 17, 2004, including accrued interest.

On December 17, 2004 the Company completed negotiations for a $1,650,000 loan facility with ATB Financial. The interest rate is 1% above Prime.

Corporate INFORMATION

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Board of Directors
Robert W. Lamond, Calgary, Alberta
John H. Cassels, Calgary, Alberta
Donald K. Clark, Calgary, Alberta
John G.F. McLeod [(1)], Okotoks, Alberta
Charles A. Teare [(1)], Calgary, Alberta
[(1)] Members of the Audit Committee

Officers
Robert W, Lamond | Chairman
John H. Cassels | President & Chief Executive Officer
Philip A. Rodd | Vice President, Exploration
Charles A. Teare | Chief Financial Officer

Subsidiaries
Royal Crusader Energy Corp.

Auditors
PricewaterhouseCoopers LLP, Calgary, Alberta

Legal Counsel
Burnet, Duckworth & Palmer LLP, Calgary, Alberta

Independent Reserve Evaluators
AJM Petroleum Consultants, Calgary, Alberta

Bankers
ATB Financial, Calgary, Alberta

Registrar & Transfer Agent
Computershare Trust Company of Canada
Calgary, Alberta

Stock Exchange Listing
TSX Venture Exchange
Trading Symbol: **HVW**

Glossary

Bbl	barrel
Bbl/d	barrels per day
MBbl	thousands of barrels
BOE	barrel of oil equivalent (@ 6 Mcf = 1 BOE)
MBOE	thousands of barrels of oil equivalent
BOE/d	barrel of oil equivalent per day
Btu	British thermal unit
MMBtu	million British thermal units
GJ	gigajoule
Mcf	thousand cubic feet of natural gas
MMcf	million cubic feet of natural gas
MMcf/d	million cubic feet of natural gas per day
Bcf	billion cubic feet of natural gas
NGL	natural gas liquids
AECO	spot price at Empress, Alberta
ARTC	Alberta Royalty Tax Credit
NYMEX	New York Mercantile Exchange
WTI	West Texas intermediate crude oil

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HIGHVIEW
RESOURCES LTD.